



**REPORT OF THE AUDITOR OF PUBLIC ACCOUNTS
AUDIT EXAMINATION OF THE
MONTGOMERY COUNTY CLERK**

Calendar Year 1999

**EDWARD B. HATCHETT, JR.
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EXECUTIVE SUMMARY
MONTGOMERY COUNTY
JUDY LONG WITT, COUNTY CLERK
CALENDAR YEAR 1999
FEE AUDIT

The County Clerk had accurate records. The County Clerk's records were readily available to the auditor and her personnel available for auditor's questions. The following are best practices performed by the County Clerk's office that improve accountability:

- Dual Signatures Were Required By The Fee Official For Disbursements
- The Fee Official Invested In Certificates Of Deposit And Treasury Bills In Order To Increase Interest Income
- The Fee Official Personally Recounted And Deposited Receipts On A Periodic Basis
- The Fee Official Issued Pre-Numbered Cash Register Or Manual Receipts To Its Customers
- The Fee Official Made Daily Deposits With A Depository Institution
- The Fee Official Has Employed A Bookkeeper Who Is Independent From Other Duties Performed By Clerk's Office

The County Clerk did have one report finding concerning inadequate pledges of securities to cover bank deposits. She had requested the amount of securities needed and entered into a written pledge agreement from the bank, but the bank did not pledge them toward her deposits.

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Edward B. Hatchett, Jr.
Auditor of Public Accounts

To the People of Kentucky

Honorable Paul E. Patton, Governor

John P. McCarty, Secretary

Finance and Administration Cabinet

Mike Haydon, Secretary, Revenue Cabinet

Honorable B. D. Wilson, Montgomery County Judge/Executive

Honorable Judy Long Witt, Montgomery County Clerk

Members of the Montgomery County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of receipts, disbursements, and excess fees of the County Clerk of Montgomery County, Kentucky, for the year ended December 31, 1999. This financial statement is the responsibility of the County Clerk. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with generally accepted auditing standards, Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the County Clerk's office is required to prepare the financial statement on a prescribed basis of accounting that demonstrates compliance with the cash basis and laws of Kentucky, which is a comprehensive basis of accounting other than generally accepted accounting principles. This cash basis system does not require the maintenance of a general fixed asset group or general long-term debt group of accounts. Accordingly, the accompanying financial statement is not intended to present financial position and results of operations in conformity with generally accepted accounting principles.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the receipts, disbursements, and excess fees of the County Clerk for the year ended December 31, 1999, in conformity with the basis of accounting described above.

To the People of Kentucky
Honorable Paul E. Patton, Governor
John P. McCarty, Secretary
Finance and Administration Cabinet
Mike Haydon, Secretary, Revenue Cabinet
Honorable B. D. Wilson, Montgomery County Judge/Executive
Honorable Judy Long Witt, Montgomery County Clerk
Members of the Montgomery County Fiscal Court

Based on the results of our audit, we have presented a comment and recommendation, included herein, which discusses the following area of noncompliance:

- The County Clerk Should Require Depository Institutions To Pledge Or Provide Sufficient Collateral To Protect Deposits

In accordance with Government Auditing Standards, we have also issued a report dated August 2, 2000, on our consideration of the County Clerk's compliance with certain laws and regulations and internal control over financial reporting.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Ed Hatchett", with a long horizontal flourish extending to the right.

Edward B. Hatchett, Jr.
Auditor of Public Accounts

Audit fieldwork completed -
August 2, 2000

MONTGOMERY COUNTY
JUDY LONG WITT, COUNTY CLERK
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES

Calendar Year 1999

Receipts

State Fees For Services	\$	9,110
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Fiscal Court		8,119
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Licenses and Taxes:

Motor Vehicle-

Licenses and Transfers	\$	615,688
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Usage Tax		3,159,548
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Tangible Personal Property Tax		1,258,313
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Licenses-

Marriage		9,764
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Dog		388
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Deed Transfer Tax		60,695
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Delinquent Tax		108,560	5,212,956
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Fees Collected for Services:

Recordings-

Deeds, Easements, and Contracts	\$	36,723
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Real Estate Mortgages		33,758
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Chattel Mortgages and Financing Statements		87,373
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Powers of Attorney		2,088
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All Other Recordings		7,302
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Charges for Other Services-

Candidate Filing Fees		1,085
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Copywork		6,529
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Notary Fees		11,516
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Passports		7,620	193,994
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Interest Earned		5,886
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Gross Receipts (Carried Forward)	\$	5,430,065
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Disbursements

Payments to State:

Motor Vehicle-

Licenses and Transfers	\$	432,199
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Usage Tax		3,064,458
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Tangible Personal Property Tax		461,297
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MONTGOMERY COUNTY
 JUDY LONG WITT, COUNTY CLERK
 STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES
 Calendar Year 1999
 (Continued)

Disbursements (Continued)

Payments to State: (Continued)

Licenses-

Dog Licenses	\$	327	
Delinquent Tax		14,795	
Legal Process Tax		26,739	
Candidate Filing Fees		60	\$ 3,999,875

Payments to Fiscal Court:

Tangible Personal Property Tax	\$	109,180	
Delinquent Tax		10,769	
Deed Transfer Tax		57,660	
Beer and Liquor Licenses		3,075	180,684

Payments to Other Districts:

Tangible Personal Property Tax	\$	632,203	
Delinquent Tax		53,468	685,671

Payments to Sheriff 2,945

Payments to County Attorney 17,095

Operating Disbursements and Capital Outlay:

Personnel Services-

Deputies Salaries	\$	262,449	
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Employee Benefits-

Employer's Share Social Security		18,476	
Employer's Share Retirement		18,573	
Employer's Paid Health Insurance		39,722	

Contracted Services-

Computer Lease Maintenance		12,092	
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Materials and Supplies-

Office Supplies		628	
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Other Charges-

Conventions and Travel		3,361	
Passports		5,790	
Miscellaneous		594	

MONTGOMERY COUNTY
 JUDY LONG WITT, COUNTY CLERK
 STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES
 Calendar Year 1999
 (Continued)

Disbursements (Continued)

Operating Disbursements and Capital Outlay: (Continued)

Capital Outlay-			
Office Equipment	\$	2,762	\$ 364,447
Total Disbursements			\$ 5,250,717
Net Receipts			\$ 179,348
Less: Statutory Maximum (Paid Directly By County)			0
Excess Fees			\$ 179,348
Less: Expense Allowance			3,600
Excess Fees Due County for Calendar Year 1999			\$ 175,748
Payments to County Treasurer - February 15, 2000	\$	175,240	
August 1, 2000		508	175,748
Balance Due at Completion of Audit			\$ 0

The accompanying notes are an integral part of the financial statement.

MONTGOMERY COUNTY
NOTES TO FINANCIAL STATEMENT

December 31, 1999

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of receipts over disbursements to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

The financial statement has been prepared on a cash basis of accounting pursuant to KRS 68.210 as recommended by the State Local Finance Officer. Revenues and related assets are generally recognized when received rather than when earned. Certain expenses are recognized when paid rather than when a liability is incurred, including capital asset purchases. Certain other expenses are recognized when a revenue and the related asset can be associated with a corresponding liability due another governmental entity.

The measurement focus of a fee official is upon excess fees. Remittance of excess fees is due to the County Treasurer in the subsequent year.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the County Clerk's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Employee Retirement System

The county officials and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a multiple-employer public retirement system that covers all eligible full-time employees. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5.0 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 7.28 percent.

MONTGOMERY COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 1999
(Continued)

Note 2. Employee Retirement System (Continued)

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65.

Historical trend information pertaining to CERS' progress in accumulating sufficient assets to pay benefits when due is present in the Kentucky Retirement Systems' annual financial report which is a matter of public record.

Note 3. Deposits

The County Clerk's office maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the County Clerk and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. The County Clerk entered into a written agreement with the depository institution and met requirements (a), (b), and (c) stated above. However, as of April 15, 1999, the collateral and FDIC insurance together did not equal or exceed the amount on deposit, leaving \$218,346 of public funds uninsured and unsecured.

The county official's deposits are categorized below to give an indication of the level of risk assumed by the county official as of April 15, 1999.

	<u>Bank Balance</u>
Uncollateralized and uninsured	<u>\$ 218,346</u>
Total	<u><u>\$ 218,346</u></u>

Note 4. Library and Archives Grant

The County Clerk's office received a local records microfilming grant from the Kentucky Department for Library and Archives in the amount of \$46,650. The unexpended grant balance was \$10 for the prior year. During the calendar year 1999, the County Clerk had no activity in this account. The unexpended grant balance is \$10 as of December 31, 1999.

Note 5. Health Insurance Premiums

KRS 61.405 allows county fee officials to purchase twelve (12) months of health insurance coverage for their employees, if excess fees are available. Therefore, the expenditures are allowable. The Attorney General has issued opinion 92-108, which claims the statute is unconstitutional and discriminatory. The Attorney General also issued OAG 94-11 on February 25, 1994, stating health or medical insurance provided uniquely for an official and not in connection with a government program providing benefits to all county employees would be personal in nature.

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COMMENT AND RECOMMENDATION

MONTGOMERY COUNTY
JUDY LONG WITT, COUNTY CLERK
COMMENT AND RECOMMENDATION

Calendar Year 1999

STATE LAWS AND REGULATIONS:

The County Clerk Should Require Depository Institutions To Pledge Or Provide Sufficient Collateral To Protect Deposits

On April 15, 1999, \$218,346 of the County Clerk's deposits of public funds in depository institutions were uninsured and unsecured. According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with Federal Deposit Insurance Corporation insurance, equals or exceeds the amount of public funds on deposit at all times. We recommend that the County Clerk require the depository institution to pledge or provide collateral in an amount sufficient to secure deposits of public funds at all times. The County Clerk requested such a pledge and entered into a written agreement with the depository institution. However, the depository institution failed to provide the requested collateral. We recommend that the County Clerk require depository institutions to pledge sufficient securities as collateral to protect deposits at all times.

County Clerk's Response:

As of October 1999, the bank discovered and corrected problem - Pledged \$405,000 to cover deposits.

PRIOR YEAR:

The County Clerk Should Require Depository Institutions To Pledge Or Provide Sufficient Collateral To Protect Deposits

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REPORT ON COMPLIANCE
AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENT
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



Edward B. Hatchett, Jr.
Auditor of Public Accounts

Honorable B. D. Wilson, Montgomery County Judge/Executive
Honorable Judy Long Witt, Montgomery County Clerk
Members of the Montgomery County Fiscal Court

Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards

We have audited the Montgomery County Clerk as of December 31, 1999, and have issued our report thereon dated August 2, 2000. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Montgomery County Clerk's financial statement as of December 31, 1999, is free of material misstatement, we performed tests of its compliance with certain provisions of laws and regulations, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Montgomery County Clerk's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Honorable B. D. Wilson, Montgomery County Judge/Executive
Honorable Judy Long Witt, Montgomery County Clerk
Members of the Montgomery County Fiscal Court
Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

This report is intended solely for the information and use of management and is not intended to be and should not be used by anyone other than the specified party. However, this report, upon release by the Auditor of Public Accounts, is a matter of public record and its distribution is not limited.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Ed Hatchett", with a long horizontal flourish extending to the right.

Edward B. Hatchett, Jr.
Auditor of Public Accounts

Audit fieldwork completed -
August 2, 2000

